



ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report
1977



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ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report *1977*

CONSOLIDATED HIGHLIGHTS

(in thousands of dollars)

	Year ended March 31	
	1977	1976
SALES - - - - -	\$975,204	\$897,489
EARNINGS (LOSS):		
BEFORE EXTRAORDINARY ITEMS - - - - -	19,332	21,084
AFTER EXTRAORDINARY ITEMS - - - - -	19,668	(52,171)
DIVIDENDS PAID:		
PREFERRED SHARES - - - - -	3,581	3,604
COMMON SHARES - - - - -	2,370	2,279
WORKING CAPITAL - - - - -	75,701	72,207
TOTAL ASSETS - - - - -	457,784	424,272
LONG TERM DEBT- - - - -	49,650	55,050
SHAREHOLDERS' EQUITY - - - - -	109,167	95,795
PER COMMON SHARE:		
EARNINGS (LOSS)—		
BEFORE EXTRAORDINARY ITEMS - - - - -	3.46	3.84
AFTER EXTRAORDINARY ITEMS - - - - -	3.53	(12.24)
SHAREHOLDERS' EQUITY - - - - -	12.24	9.18

The Annual Meeting of shareholders will be held at the Hyatt Regency Hotel, 21 Avenue Road, Toronto, Ontario at 3:00 o'clock on Thursday, July 7, 1977.

Ce rapport peut être obtenu en français sur demande.

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The Company is a member of the world-wide Rothmans Group which operates 102 plants in 26 countries and whose products are sold in more than 180 countries. Rothmans of Pall Mall Canada Limited and its subsidiary companies are engaged in the production and sale of tobacco products, beer and wine and in oil and gas operations.

The Company is Canada's second largest manufacturer and distributor of cigarettes, including such well-known brands as Rothmans King Size Filter, the Craven Family and Number 7. Fine cut tobacco and cigarette tubes are also produced and sold. Tobacco manufacturing operations are carried out at plants located in Toronto and Quebec City. The Company also sells cigarette rolling devices, imported pipe tobaccos, cigars and smokers' accessories. The Company has seventeen sales offices across Canada.

Carling O'Keefe Limited, a majority-owned (50.1%) subsidiary, operates thirteen breweries in Canada, six in the United States and one in the Republic of Ireland, producing such well-known brands as Carling Black Label, Carling Red Cap Ale, Heidelberg, Calgary Export Ale, Old Vienna, O'Keefe Ale, Tuborg, Carlsberg, Colt 45 Malt Liquor, National Premium and National Bohemian. A subsidiary company, Jordan Valley Wines Limited, produces wine at six Canadian plants. A wholly-owned subsidiary company, Star Oil & Gas Ltd., is engaged in oil and gas operations in Canada and the United States.

Directors' Report

Consolidated operations of the Company and its subsidiaries for the year ended March 31, 1977 resulted in earnings which were 8.3 percent lower than in the previous year. There was substantial improvement in overall results from the Company's majority-owned subsidiary, Carling O'Keefe Limited, but reduced earnings from tobacco operations more than offset these gains. Consolidated earnings before extraordinary items amounted to \$19,332,000 (\$3.46 per Common share), compared to \$21,084,000 (\$3.84) in 1976.

In tobacco operations, the Company's unit sales of cigarettes were slightly higher than last year. However, there were significant cost increases in all areas which were only partially offset by higher selling prices. The Company's ability to obtain selling price relief was adversely affected by both the Anti-Inflation Act (Canada) and the uncertainty which prevailed for a number of months with respect to regulations under the Act.

Excluding extraordinary items, Carling O'Keefe Limited earned 12 cents per common share compared to a loss of 5.9 cents in 1976. The acquisition of The National Brewing Co. had a full year's impact in 1977, compared to only five months in 1976, and resulted in a significant improvement in United States brewing operations. This gain was partially offset by lower earnings from Canadian brewing and wine operations.

It is with a deep sense of loss that directors and management record the death of Mr. Renault St-Laurent on May 13, 1977. Mr. St-Laurent had provided distinguished service to Rothmans as a director since 1969.

During the year, there were two changes in directors of your Company. In October, The Rt. Hon. Lord Pritchard replaced Major General Sir Francis de Guingand, who had served with distinction as a director since 1961. In January, Mr. Ronald D. Southern, President of ATCO Industries Limited, was appointed a director, replacing Mr. C.P. Young who had served on an interim basis.

Effective January 1, 1977, the Company's tobacco operations were restructured by grouping all activities into the major categories of operations and corporate services, each under the direction of a senior vice president. Mr. R.H. Newton, formerly Vice President Marketing, was appointed Senior Vice President Operations and Mr. C.P. Young, formerly Vice President, General Counsel and Secretary, became Senior Vice President Corporate Services. Other officer appointments resulting from the reorganization were Mr. R.I.P. Camerson as Vice President Marketing, Mr. C.A. Denis as Vice President Corporate Affairs, Mr. R.T. Lloyd as Vice President Administration, Mr. H.R. Sampson as Vice President and Treasurer and Miss C.G. Ferguson as Secretary and General Counsel.

My fellow directors join me in thanking all employees of the Company and its subsidiaries for their conscientious efforts throughout the year. We also wish to express our appreciation to shareholders for their continued loyal support.



May 19, 1977

Chairman of the Board

Review of Tobacco Operations

YEAR ENDED MARCH 31 (in thousands of dollars)	1977	1976	INCREASE (DECREASE)
SALES			
Cigarette division	\$381,241	\$372,448	2.4%
Fine Cut division	8,368	8,596	(2.7)
Dunhill division	4,875	4,362	11.8
	394,484	385,406	2.4
EARNINGS BEFORE EXTRAORDINARY ITEMS			
Before income taxes	31,644	37,578	(15.8)
After income taxes	18,022	21,729	(17.1)

Sales:

(i) Cigarette division—

The 2.4 percent gain in revenue from cigarette sales reflects both increased selling prices instituted during the year (September 13, 1976 and March 7, 1977) and slightly higher sales volume. The Company's unit cigarette sales totalled 17,209 million, up by 0.9 percent from last year's 17,050 million.

During the year, higher sales volumes were achieved by the CRAVEN Family, PETER STUYVESANT 100'S and DUMONT SELECT MILD. The CRAVEN Family recorded an overall sales growth of 9.8 percent. CRAVEN "A" SPECIAL MILD, which was introduced in the latter part of the year, surpassed the Company's most optimistic forecasts and was an important factor in the growth of the CRAVEN Family. PETER STUYVESANT 100'S, both Virginia and menthol, increased significantly on a percentage basis over last year. Sales of DUMONT SELECT MILD were substantially higher during 1977, but it must be remembered that this brand was only launched during the 1976 fiscal year.

During the year under review, the Canadian cigarette market was highlighted by vigorous competitive activity, with a number of new brand introductions and the offering of numerous sales incentives by some companies. As a

result, individual company sales and market shares were very difficult to assess. Industry sales for 1977 amounted to 62,089 million, an increase of 4 percent over last year's 59,679 million.

The majority of new brand introductions in the industry were in the rapidly growing mild segment and included several under existing brand family names. The Company introduced CRAVEN "A" SPECIAL MILD in king size length in Montreal, Quebec City, Ottawa, Toronto and Vancouver during November and December 1976. Distribution to other areas of Canada will continue during the current year. Subsequent to the year-end, a regular length version of this cigarette was introduced. National distribution of DUMONT SELECT MILD, a king size cigarette originally introduced in October 1975, was achieved by August 1976. These two brands join the Company's original CRAVEN "A" in this market segment.

At the present time, the Company's active brands are as follows:

<u>REGULAR</u>	<u>KINGSIZE</u>	<u>LUXURY LENGTH</u>
<i>Filter:</i>	<i>Filter:</i>	<i>Filter:</i>
Craven "A"	Rothmans	Peter Stuyvesant 100'S
Craven "A"	Number 7	Peter Stuyvesant 100'S
Special Mild	Craven King Size	Menthol
Sportsman	Craven Menthol	
Black Cat	Craven "A"	
	Special Mild	
	Sportsman	
	Perilly's Private Blend	
<i>Plain:</i>	Peter Stuyvesant	
Sportsman	Dunhill	
Black Cat	Dumont Select Mild	

(ii) Fine Cut division—

The 2.7 percent decline in sales revenue from fine cut tobacco, cigarette tubes and cigarette rolling devices reflects reduced volumes in all categories. Unit sales of

fine cut and pipe tobacco, the major product line of this division, declined by 4.9 percent, to 1,676,000 pounds from 1,762,000 pounds in 1976. Selling price increases effective November 1, 1976 partially offset this lower volume.

(iii) Dunhill division—

Sales revenue for this division was up by 11.8 percent, primarily due to higher volumes for cigars, imported pipe tobacco and lighters. Sales revenue from cigars increased by 19.8 percent on a 5 percent increase in unit sales, reflecting a larger proportion of sales in the higher price categories. On the other hand, sales revenue from lighters was up by 36.7 percent compared to a unit sales gain of 92.4 percent; a significant portion of the higher volume was in the new Maruman line of moderately priced lighters. Unit sales of imported pipe tobacco were 6 percent higher than last year.

<i>Earnings before Income Taxes:</i>	Year ended March 31	
	1977	1976
Sales	100.0%	100.0%
Excise and sales taxes	55.5	56.2
Net sales	44.5	43.8
Costs:		
Raw materials and manufacturing	25.5	24.1
Marketing and distribution	7.3	6.3
Administrative and general	2.1	2.1
Interest	1.6	1.5
	36.5	34.0
Earnings before income taxes	8.0%	9.8%

(i) Excise and sales taxes—

Federal excise duty, sales tax and excise tax are the three taxes included in this category. In total, they amounted to \$218,792,000 in 1977, an increase of \$2,165,000 or 1 percent over last year. There were no changes in rates during the year, but the amount of sales tax per pack of cigarettes increased as a result of manufacturers' selling price adjustments. Together, these taxes now represent 25.6 cents and

32.1 cents per pack of 20 and 25 king size cigarettes respectively.

In addition to the above-noted federal taxes, the retail price of cigarettes also includes taxes levied by the various provinces and territories. During the year ended March 31, 1977, five provinces (Ontario, Manitoba, Quebec, Saskatchewan and Nova Scotia) and the Yukon Territory increased their tobacco taxes, with the largest increase being 10 cents per pack of 25. Subsequent to March 31, Newfoundland raised its tax. At the present time, provincial taxes on cigarettes range from 8 cents per pack of 25 (Alberta) to 41 cents (Newfoundland). In total, federal and provincial taxes account for 40 to 65 percent of the retail price of a package of cigarettes. Together, these taxes range from 155 to 295 percent of the manufacturers' selling price excluding taxes.

(ii) Raw materials and manufacturing expenses—

The major elements of production cost are leaf tobacco, packaging materials, direct labour and manufacturing overheads. In total, the amount charged against earnings in 1977 was \$100,576,000, up by 8.5 percent over 1976, with all elements showing increases on both an absolute and a per unit basis.

Leaf tobacco is the most significant component of production cost, accounting for approximately 45 percent of the total cost in 1977. The charge against earnings averaged \$1.17 per pound compared to \$1.06 in 1976. The increase resulted from the significantly higher prices paid for leaf purchased last year and in the early part of the 1977 fiscal year. For this crop, the Company's average cost for Ontario flue-cured tobacco, its major source of supply, was \$1.09 per pound compared to 92 cents in the prior year.

Auctions of the 1976 Ontario crop were completed in the latter part of March 1977. Sales totalled 159 million pounds compared to 210 million pounds last year. Since the overall average price paid during the auctions exceeded the minimum price guaranteed by the Canadian tobacco manufacturers, no deficiency payment was required this year. The Company's cost for Ontario leaf averaged \$1.06

per pound compared to the overall auction average of \$1.02. These purchases are included in inventory at March 31, 1977.

The Company also purchases leaf tobacco in the Province of Quebec and in the Maritimes. For the 1976 crop, these purchases amounted to approximately 26 percent of the total available for sale in these two areas.

Packaging materials accounted for approximately 25 percent of total production cost in 1977. Included in this category are all raw materials except leaf tobacco, with paper and board products being the most significant components. Following the trend seen last year, the rate of increase in suppliers' prices for packaging materials continued to abate somewhat in comparison to the very significant increases in the prior two years.

Labour contracts at both the Toronto and Quebec City plants, which expired during the prior year, were approved by the Anti-Inflation Board after many months of deliberation. The present contracts expire on December 20, 1977 at Toronto and March 19, 1978 at Quebec City.

Indirect or overhead manufacturing costs again showed sharp increases in 1977 in all expense categories. Higher production volume had the effect of modifying these increases somewhat on a per unit basis.

(iii) Marketing and distribution expenses—

In total, marketing and distribution expenses amounted to \$28,886,000 in 1977, up by 18.9 percent compared to last year.

Marketing costs (selling and advertising) increased primarily as a result of higher salary and fringe benefit costs, additional staff in the sales organization and larger media advertising expenditures related to the introduction of CRAVEN "A" SPECIAL MILD.

Higher distribution expenses (freight and warehousing) reflected both cost increases and higher sales volume. The most significant cost increments were in salaries, building operating expenses and freight rates charged by carriers.

(iv) Administrative and general expenses—

Compared to last year, these expenses were up by only \$47,000 or 0.6 percent. Increased salary costs were partially offset by reduced write-offs of amounts spent on research and development projects.

(v) Interest expense—

In total, interest expense was \$371,000 higher than in 1976, reflecting increased costs for short term borrowings (bank indebtedness and notes payable), partially offset by lower interest expense on long term debt (Series A and B Debentures). Generally higher levels of borrowing in 1977 were the major factor increasing interest expense on short term debt, with a slightly higher average interest rate also being a contributing factor. Purchases of Debentures to satisfy sinking fund requirements accounted for the lower interest expense on long term debt.

Income Taxes:

Income taxes charged against earnings for 1977 totalled \$13,622,000 or 43 percent of earnings before tax (1976: \$15,849,000; 42.2 percent). The provision for both years reflects the lower federal tax rate on manufacturing and processing profits and the 5% investment tax credit.

The Company follows the tax allocation basis of accounting for income taxes for all timing differences between accounting and taxable income. The major timing difference in both years was the excess of capital cost allowance claimable for income tax purposes over depreciation recorded in the accounts.

Capital Expenditures and Depreciation:

Additions to property, plant and equipment amounted to \$4,355,000 during the year ended March 31, 1977, a significant reduction from 1976 expenditures of \$8,999,000. Major expenditures in 1977 related to production equipment and facilities and the replacement of vehicles, primarily salesmen's station wagons.

Depreciation expense for the year was \$3,685,000 (1976: \$3,423,000). The Company depreciates capital assets generally on the straight-line basis over the estimated service lives of the assets.

Review of Brewing Operations

YEAR ENDED MARCH 31 (in thousands of dollars)	1977	1976	INCREASE (DECREASE)
SALES			
Beer—			
Canada	\$301,313	\$287,237	4.9%
U.S.A.	225,015	171,156	31.5
Ireland	18,936	18,830	0.6
	545,264	477,223	14.3
Wine	29,323	30,019	(2.3)
Oil and gas	6,133	4,841	26.7
	580,720	512,083	13.4
EARNINGS BEFORE EXTRAORDINARY ITEMS			
Before income taxes	8,335	5,121	62.8
After income taxes	4,732	846	459.3

Excluding extraordinary items, consolidated earnings of Carling O'Keefe Limited, after providing for dividends on preference shares, amounted to 12 cents per Carling O'Keefe common share for the year ended March 31, 1977, compared to a loss of 5.9 cents in 1976. Significantly improved operating results from United States brewing operations were the major reason for the overall improvement in consolidated results.

In 1977, a tax reduction of \$670,000 arising from utilization of a loss carry-forward by the United States brewing subsidiary increased final consolidated earnings to \$5,402,000 or 15.1 cents per common share. During the year ended March 31, 1976, costs of \$3,363,000 relating to the reorganization of United States brewing operations were charged against earnings as an extraordinary item, increasing the final loss per common share to 21.4 cents.

In Canadian brewing operations, the 4.9 percent gain in sales revenue reflected selling price increases obtained in some markets. Sales volume of 4,152,000 barrels represented a decline of 3.7 percent from 1976 sales of 4,313,000

barrels. Earnings decreased to \$2,007,000 from \$6,166,000 last year.

The substantial increase in sales revenue from United States brewing operations was attributable to the full year's impact of brands acquired from The National Brewing Co. during the 1976 fiscal period. Total sales volume for 1977 was 4,565,000 barrels compared to 3,677,000 last year, an increase of 24.2 percent. Including extraordinary items and foreign exchange, United States operations achieved earnings of \$569,000, compared to a loss of \$12,851,000 in 1976.

Brewing operations in the Republic of Ireland attained a 0.6 percent increase in sales revenue, despite slightly lower sales volume. Barrel sales of 182,000 in 1977 compared to 200,000 barrels in the previous twelve months. Including foreign exchange losses, results from operations showed a loss of \$352,000, compared to \$949,000 in 1976.

The 2.3 percent decline in sales revenue from wine operations resulted primarily from lower sales volume. Gallons sold in 1977 totalled 4,806,000 compared to 4,891,000 in 1976. After provision for the minority interest (8.1%), Carling O'Keefe's share of the loss incurred in wine operations was \$331,000, compared to earnings of \$1,199,000 in 1976.

Sales revenue from oil and gas operations again showed a significant increase over the previous year. Earnings of \$2,392,000 during 1977 were virtually unchanged from 1976 earnings of \$2,324,000.

Royalty income from sales of Carling Black Label under franchise agreements in certain overseas markets increased by 1.7 percent to \$1,404,000.

A copy of the 1977 annual report for Carling O'Keefe Limited is enclosed to provide further information on brewing operations.

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(in thousands of dollars)

		Year ended March 31	
		1977	1976
Income:			
Sales	- - - - -	\$975,204	\$897,489
Excise and sales taxes	- - - - -	381,453	371,416
		593,751	526,073
Investment and other income	- - - - -	3,690	3,678
		597,441	529,751
Costs:			
Raw materials and manufacturing	- - - - -	380,616	330,956
Marketing and distribution	- - - - -	133,966	117,944
Administrative and general	- - - - -	31,894	27,751
Interest and expense on long term debt	- - - - -	4,321	4,668
Other interest	- - - - -	6,214	4,915
Foreign exchange	- - - - -	480	651
		557,491	486,885
		39,950	42,866
Income taxes (Note 5):			
Current	- - - - -	13,634	17,502
Deferred	- - - - -	3,591	2,622
		17,225	20,124
		22,725	22,742
Minority interest (Note 6)	- - - - -	3,393	1,658
Earnings before extraordinary items	- - - - -	19,332	21,084
Extraordinary items:			
Tax reduction of \$670 arising from utilization of loss carry-forward in United States brewing subsidiary, less minority interest of \$334 (Note 5)	- -	336	—
Cost of reorganization of United States brewing operations of \$3,363, less minority interest of \$1,678 (Note 4)	- - - - -	—	(1,685)
Excess cost of Carling O'Keefe shares written off (Note 11)	- - - - -	—	(71,570)
		336	(73,255)
Earnings (loss) for the year	- - - - -	\$ 19,668	\$ (52,171)
Earnings (loss) per Common share (Note 7):			
Before extraordinary items	- - - - -	\$ 3.46	\$ 3.84
After extraordinary items	- - - - -	\$ 3.53	\$ (12.24)

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	<u>Year ended March 31</u>	
	<u>1977</u>	<u>1976</u>
Balance at beginning of year - - - - -	\$ 38,384	\$ 24,753
Earnings (loss) for the year - - - - -	19,668	(52,171)
Transfer of excess cost of Carling O'Keefe shares written off, applied against reduction in capital in 1976 (Note 11) - - - - -	—	71,570
Excess of par value over cost of First Preferred shares purchased for cancellation (Note 11) - - - - -	163	47
Excess of par value over cost of preference shares purchased for cancellation by Carling O'Keefe Limited, less minority interest - - - - -	62	68
	<u>58,277</u>	<u>44,267</u>
Dividends paid:		
Preferred shares—		
First Preferred shares, Series A (\$6.85 per share) - - - - -	1,140	1,163
Second Preferred shares (\$1.32½ per share) - - - - -	2,441	2,441
	<u>3,581</u>	<u>3,604</u>
Common shares (1977—\$0.52 per share; 1976—\$0.50) - - - - -	2,370	2,279
	<u>5,951</u>	<u>5,883</u>
Balance at end of year - - - - -	<u>\$ 52,326</u>	<u>\$ 38,384</u>

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year ended March 31	
	1977	1976
Working capital was increased by:		
Earnings before extraordinary items - - - - -	\$ 19,332	\$ 21,084
Depreciation - - - - -	14,395	14,159
Minority interest in earnings before extraordinary items - - - - -	3,393	1,658
Other items not requiring working capital - - - - -	3,243	2,113
Working capital from operations - - - - -	40,363	39,014
Tax reduction arising from utilization of loss carry-forward (Note 5) - - - - -	670	—
Proceeds on disposal of—		
Property, plant and equipment - - - - -	1,456	1,865
Other assets - - - - -	1,838	2,848
Current portion of mortgage receivable - - - - -	3,100	—
	47,427	43,727
Working capital was decreased by:		
Additions to property, plant and equipment - - - - -	23,757	18,880
Additions to other assets - - - - -	4,040	—
Purchase of assets of The National Brewing Co. (Note 3) - - - - -	483	13,033
Purchase of shares in subsidiary companies (Note 3) - - - - -	2,004	2,397
Reduction of long term debt - - - - -	4,993	4,782
Purchase of First Preferred shares - - - - -	407	99
Cost of reorganization of United States brewing operations (Note 4) - - - - -	—	3,363
Dividends—		
Preferred shares - - - - -	3,581	3,604
Common shares - - - - -	2,370	2,279
By subsidiary companies to minority shareholders - - - - -	2,125	2,234
Other - - - - -	173	173
	43,933	50,844
Increase (decrease) in working capital - - - - -	3,494	(7,117)
Working capital at beginning of year - - - - -	72,207	79,324
Working capital at end of year - - - - -	\$ 75,701	\$ 72,207

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

(in thousands of dollars)

		March 31	
		<u>1977</u>	<u>1976</u>
ASSETS			
Current assets:			
Cash	– – – – –	\$ 1,927	\$ 2,909
Accounts receivable	– – – – –	56,629	50,733
Recoverable income taxes	– – – – –	1,594	1,988
Inventories	– – – – –	180,100	161,241
Prepaid expenses	– – – – –	5,394	4,638
Total current assets	– – – – –	<u>245,644</u>	<u>221,509</u>
Property, plant and equipment, at cost	– – – – –	335,934	330,848
Less: Accumulated depreciation	– – – – –	161,879	159,844
		<u>174,055</u>	<u>171,004</u>
Other assets (Note 8)	– – – – –	38,085	31,759
		<u><u>\$457,784</u></u>	<u><u>\$424,272</u></u>
LIABILITIES			
Current liabilities:			
Bank indebtedness and notes payable (Note 9)	– – – – –	\$ 85,698	\$ 77,515
Accounts payable and accrued liabilities	– – – – –	56,605	46,833
Income taxes	– – – – –	4,071	4,274
Excise, sales and other taxes	– – – – –	23,041	20,149
Dividends payable to minority interest	– – – – –	528	531
Total current liabilities	– – – – –	<u>169,943</u>	<u>149,302</u>
Long term debt (Note 10)	– – – – –	49,650	55,050
Other long term obligation (Note 14)	– – – – –	2,354	2,424
Total liabilities	– – – – –	<u>221,947</u>	<u>206,776</u>
DEFERRED INCOME TAXES	– – – – –	25,975	22,384
MINORITY INTEREST IN SUBSIDIARY COMPANIES (Note 6)	– – – – –	<u>100,695</u>	<u>99,317</u>
SHAREHOLDERS' EQUITY			
Capital stock (Note 11):			
Preferred shares	– – – – –	53,251	53,821
Common shares	– – – – –	3,590	3,590
		<u>56,841</u>	<u>57,411</u>
Retained earnings (Notes 12 and 16)	– – – – –	52,326	38,384
Total shareholders' equity	– – – – –	<u>109,167</u>	<u>95,795</u>
		<u><u>\$457,784</u></u>	<u><u>\$424,272</u></u>
APPROVED BY THE BOARD:			
J. H. DEVLIN, <i>Director</i>			
R. H. HAWKES, <i>Director</i>			

CONSOLIDATED OPERATING RESULTS

		Year ended March 31					
		Tobacco		Brewing		Total	
		1977	1976	1977	1976	1977	1976
INCOME:							
Sales	- - - - -	\$394,484	\$385,406	\$580,720	\$512,083	\$975,204	\$897,489
Excise and sales taxes	- - - - -	218,792	216,627	162,661	154,789	381,453	371,416
		175,692	168,779	418,059	357,294	593,751	526,073
Investment and other income	- - - -	—	—	3,690	3,678	3,690	3,678
		175,692	168,779	421,749	360,972	597,441	529,751
COSTS:							
Raw materials and manufacturing	- - -	100,576	92,736	280,040	238,220	380,616	330,956
Marketing and distribution	- - - -	28,886	24,297	105,080	93,647	133,966	117,944
Administrative and general	- - - - -	8,302	8,255	23,592	19,496	31,894	27,751
Interest and expense on long term debt	-	2,920	3,084	1,401	1,584	4,321	4,668
Other interest	- - - - -	3,364	2,829	2,850	2,086	6,214	4,915
Foreign exchange	- - - - -	—	—	480	651	480	651
		144,048	131,201	413,443	355,684	557,491	486,885
		31,644	37,578	8,306	5,288	39,950	42,866
INCOME TAXES:							
Current	- - - - -	12,195	14,283	1,439	3,219	13,634	17,502
Deferred	- - - - -	1,427	1,566	2,164	1,056	3,591	2,622
		13,622	15,849	3,603	4,275	17,225	20,124
		18,022	21,729	4,703	1,013	22,725	22,742
MINORITY INTEREST	- - - - -	—	—	3,393	1,658	3,393	1,658
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS							
	- - - -	\$ 18,022	\$ 21,729	\$ 1,310	\$ (645)	\$ 19,332	\$ 21,084

CONSOLIDATED FINANCIAL POSITION

		March 31 1977	March 31 1976
INVENTORIES:			
Tobacco—			
Leaf tobacco (including purchase advances of \$33,396 in 1976)	- - - - -	\$ 80,481	\$ 70,581
Finished stock	- - - - -	26,310	22,900
Packaging material and other	- - - - -	6,822	6,755
		113,613	100,236
Brewing—			
Beverage products, finished and in process	- - - - -	37,168	33,336
Materials and supplies	- - - - -	17,342	15,799
Containers	- - - - -	11,977	11,870
		66,487	61,005
		\$180,100	\$161,241

Business Data

(in millions of dollars)

CONSOLIDATED FINANCIAL POSITION

	March 31 1977		March 31 1976	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
PROPERTY, PLANT AND EQUIPMENT:				
Tobacco—				
Land - - - - -	\$ 2,541	\$ —	\$ 2,260	\$ —
Buildings - - - - -	6,288	2,524	5,411	2,344
Machinery, furniture and fixtures - - - - -	39,322	21,332	37,289	19,300
Motor vehicles - - - - -	4,621	2,842	4,467	2,254
Leasehold improvements - - - - -	6,850	3,806	6,250	3,278
	<u>59,622</u>	<u>30,504</u>	<u>55,677</u>	<u>27,176</u>
Brewing—				
Land - - - - -	7,105	—	6,875	—
Buildings - - - - -	86,901	29,947	86,828	29,939
Machinery and equipment - - - - -	143,660	89,997	147,525	91,829
Motor vehicles - - - - -	14,375	6,919	14,526	6,870
Oil and gas properties - - - - -	23,011	3,869	17,935	3,311
Leasehold improvements - - - - -	1,260	643	1,482	719
	<u>276,312</u>	<u>131,375</u>	<u>275,171</u>	<u>132,668</u>
	<u>\$335,934</u>	<u>\$161,879</u>	<u>\$330,848</u>	<u>\$159,844</u>
BANK INDEBTEDNESS AND NOTES PAYABLE:				
Bank indebtedness—				
Tobacco - - - - -	\$ 32,226		\$ 31,920	
Brewing - - - - -	37,472		30,145	
	<u>69,698</u>		<u>62,065</u>	
Notes payable—Tobacco - - - - -	16,000		15,450	
	<u>\$ 85,698</u>		<u>\$ 77,515</u>	
LONG TERM DEBT (consisting of Sinking Fund Debentures):				
Rothmans of Pall Mall Canada Limited—				
Series A 8 ⁰ / ₁₀ due January 3, 1988 - - - - -	\$ 9,397		\$ 10,100	
Series B 11 ⁰ / ₁₀ due February 15, 1995 - - - - -	18,400		19,100	
	<u>27,797</u>		<u>29,200</u>	
Carling O'Keefe Limited—				
Series A 4 ³ / ₄ ⁰ / ₁₀ due January 15, 1979 - - - - -	1,186		1,482	
Series B 4 ¹ / ₄ ⁰ / ₁₀ due January 15, 1981 - - - - -	2,577		3,478	
Series C 5 ⁰ / ₁₀ due January 15, 1983 - - - - -	3,008		3,954	
Series D 5 ¹ / ₂ ⁰ / ₁₀ due April 1, 1986 - - - - -	7,026		7,684	
Series E 5 ¹ / ₂ ⁰ / ₁₀ due April 1, 1989 - - - - -	11,126		12,865	
	<u>24,923</u>		<u>29,463</u>	
	<u>52,720</u>		<u>58,663</u>	
Less: Amount included in current liabilities - - - - -	3,070		3,613	
	<u>\$ 49,650</u>		<u>\$ 55,050</u>	

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

MARCH 31, 1977 AND 1976

1. Summary of significant accounting policies:

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Purchase accounting has been followed for all acquisitions and the results of operations of subsidiaries are included from effective dates of acquisition.

For certain brewing subsidiaries acquired prior to April 1, 1974, the excess of the cost of shares over the recorded value of underlying net tangible assets at dates of acquisition is carried at cost and is not being amortized. In accordance with current accounting practice, intangible assets acquired subsequently are being amortized over periods not exceeding forty years.

FOREIGN EXCHANGE:

Foreign currency accounts are translated to Canadian dollars as follows: current accounts at exchange rates in effect at March 31; other balance sheet accounts and depreciation expense at historical rates of exchange; income and other costs at average rates of exchange during the year. The resulting exchange gains or losses are included in the consolidated statement of earnings.

INVENTORIES:

Except for containers, inventories are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

PROPERTY, PLANT AND EQUIPMENT:

Depreciation is recorded generally on the straight-line basis over the estimated service lives of the assets, which are as follows for the principal asset categories:

Buildings—15 to 50 years

Machinery, furniture and fixtures—5 to 20 years

Motor vehicles—3 to 10 years

Leasehold improvements—term of lease, not to exceed 10 years

Oil and gas properties are accounted for on the full cost method, whereby all costs of exploration and development are capitalized and amortized against income using the unit of production method based on proven oil and gas reserves.

OTHER ASSETS:

Other assets are recorded at cost or amortized cost.

PENSIONS:

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains and losses are charged to operations as they are funded in accordance with legal requirements over periods ranging from five to thirty years.

RESEARCH AND DEVELOPMENT:

Research and development expenditures are charged to operations as incurred.

MARKETING:

Marketing costs, including those related to the introduction of new brands, are charged to operations as incurred, except for certain promotional items which are charged to operations as used.

INCOME TAXES:

Income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income. These timing differences arise principally between accounting and tax depreciation.

2. Line of business reporting:

In these statements, all references to “brewing” relate to all activities of the Company’s majority-owned (50.1%) subsidiary, Carling O’Keefe Limited, which include the production and sale of beer and wine and also the oil and gas operations. Details by line of business of consolidated operating results and certain consolidated assets and liabilities are shown on pages 12 and 13.

3. Acquisitions:

Effective June 1, 1976, Carling O'Keefe acquired 91.5% of the shares of Le Club de Hockey Les Nordiques Inc. for \$1,639,000 cash. The values established by the transaction were as follows:

[illegible]

During the 1976 fiscal period, Carling O'Keefe acquired:

- (i) For \$18,952,000 cash the brewing assets, including working capital of \$5,919,000, and trademarks of The National Brewing Co. and assumed a long term obligation for unfunded vested prior service pension benefits. Additional consideration, to a maximum of U.S. \$9 million, may be payable under a formula based on the earnings of the major United States brewing subsidiary over the seven-year period commencing April 1, 1976. In the 1977 fiscal year, an amount of U.S. \$754,000 became payable under this formula, of which U.S. \$459,000 (Canadian \$483,000) has been assigned to the excess cost of assets over the value of the underlying net tangible assets.
- (ii) Additional shares (8.1%) of Jordan Valley Wines Limited for \$2,397,000 cash, of which \$726,000 represented the excess cost of the shares over the value of the underlying net tangible assets.

4. Cost of reorganization of United States brewing operations:

In 1976, the United States brewing operations were reorganized, including the closure of the plant at Natick, Massachusetts, and a provision of \$3,363,000 was made for costs relating to these actions. Pending determination of the future of the Natick property, no adjustment has been made to the carrying value of \$4,936,000, included in sundry properties at March 31, 1977.

5. Income taxes:

In 1977, the major United States brewing subsidiary applied prior years' losses against the current year's taxable income with a resultant tax reduction of \$670,000. At March 31, 1977, accumulated losses for tax purposes incurred by that company in prior years of approximately \$22,100,000 remain available to be applied against future taxable income, of which \$1,400,000 can be carried forward to 1978, \$2,600,000 to 1979, \$9,600,000 to 1980 and \$8,500,000 to 1983.

6. Minority interest in subsidiary companies:

The interest of minority shareholders in consolidated earnings or losses, before extraordinary items, was as follows:

CARLING O'KEEFE LIMITED:	1977	1976
Preference shares – – – – – – – – – – – – – – – –	\$ 2,117,000	\$ 2,132,000
Common shares – – – – – – – – – – – – – – – –	1,305,000	(641,000)
	<u>3,422,000</u>	<u>1,491,000</u>
JORDAN VALLEY WINES LIMITED:		
Common shares – – – – – – – – – – – – – – – –	(29,000)	167,000
	<u>\$ 3,393,000</u>	<u>\$ 1,658,000</u>

The minority shareholders' interest in the capital stock and retained earnings of subsidiary companies is as follows:

CARLING O'KEEFE LIMITED:	1977	1976
Preference shares – – – – – – – – – – – – – – – –	\$ 43,538,000	\$43,793,000
Common shares – – – – – – – – – – – – – – – –	55,509,000	53,810,000
	<u>99,047,000</u>	<u>97,603,000</u>
JORDAN VALLEY WINES LIMITED:		
Common shares – – – – – – – – – – – – – – – –	1,648,000	1,714,000
	<u>\$100,695,000</u>	<u>\$99,317,000</u>

7. Earnings per Common share:

Earnings per Common share for both 1977 and 1976 have been calculated on the 4,557,928 shares which were outstanding during these years. Dividends earned on Preferred shares were deducted from consolidated earnings for purposes of this calculation.

Assuming exercise of the outstanding warrants and conversion of the Second Preferred shares as at April 1, 1976, earnings per Common share on a fully diluted basis for the year ended March 31, 1977 would have been \$2.93 before the extraordinary item and \$2.98 after the extraordinary item.

8. Other assets:

	1977	1976
Unamortized cost of shares and assets of Carling O'Keefe subsidiaries in excess of underlying net tangible asset values at acquisition – – – – –	\$ 14,969,000	\$12,618,000
Trademarks and patents, less amortization – – – – –	2,199,000	2,218,000
Sundry properties (Note 17) – – – – –	12,747,000	8,274,000
Mortgages and long term receivables – – – – –	1,189,000	4,843,000
Unamortized deferred charges, investments and other – – – – –	6,981,000	3,806,000
	<u>\$ 38,085,000</u>	<u>\$31,759,000</u>

Amortization of other assets amounted to \$227,000 for the year ended March 31, 1977 (1976—\$141,000).

Under an agreement dated June 23, 1976, Carling O'Keefe acquired for \$2,000,000 cash a 40% interest in a partnership which owns the Toronto Argonaut Football Club. Under certain circumstances, and subject to certain conditions, Carling O'Keefe may be obliged to acquire the remaining interest in the partnership on similar terms.

9. Bank indebtedness and notes payable:

Bank indebtedness of \$32,226,000 (1976—\$31,920,000) arising from tobacco operations is secured by the related accounts receivable and inventories. Bank indebtedness of the major United States brewing subsidiary of \$4,752,000 (1976—\$5,500,000) is secured by the related accounts receivable.

10. Long term debt:

Long term debt consists of Sinking Fund Debentures of the Company (\$26,250,000) and Carling O'Keefe Limited (\$23,400,000). The remaining sinking fund requirements for the years ending March 31, 1978 through 1982 are as follows:

	1978	1979	1980	1981	1982
Rothmans of Pall Mall Canada Limited - -	\$1,547,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000
Carling O'Keefe Limited - - - - -	1,523,000	3,800,000	3,200,000	3,200,000	2,400,000
	<u>\$3,070,000</u>	<u>\$5,400,000</u>	<u>\$4,800,000</u>	<u>\$4,800,000</u>	<u>\$4,000,000</u>

The Rothmans debentures and the Carling O'Keefe Series C, D, and E debentures are payable in Canadian funds. The Carling O'Keefe Series A and B debentures are payable in either Canadian or U.S. funds at par, at the option of the holder. The Rothmans debentures are secured by a floating charge on the Company's assets in the Provinces of Ontario and Quebec.

11. Capital stock:

AUTHORIZED:

- 469,889 First Preferred shares of the par value of \$100 each, issuable in series
- 2,817,062 Second Preferred shares of the par value of \$20 each
- 7,950,000 Common shares without nominal or par value

ISSUED:

	1977	1976
164,100 6.85% Cumulative Redeemable First Preferred shares, Series A (1976—169,801) - - - - -	\$16,410,000	\$16,980,000
1,842,062 6 ⁵ / ₈ % Convertible Cumulative Redeemable Second Preferred shares- - - - -	36,841,000	36,841,000
	53,251,000	53,821,000
4,557,928 Common shares - - - - -	3,590,000	3,590,000
	<u>\$56,841,000</u>	<u>\$57,411,000</u>

COMMON SHARE CAPITAL REDUCTION:

During the 1976 fiscal period, a reduction in Common share capital of \$71,570,000 was made in conjunction with the decision of the directors of the Company to write-off, as at June 30, 1975, an equivalent amount representing the excess cost of shares of Carling O'Keefe Limited over the recorded value of underlying net tangible assets at dates of acquisition.

PURCHASES:

During the year ended March 31, 1977, 5,701 First Preferred shares with a total par value of \$570,000 were purchased for cancellation at a cost of \$407,000.

REDEMPTION AND CONVERSION PRIVILEGES:

The Series A First Preferred shares are not redeemable before January 27, 1979, but are redeemable on or after that date at the option of the Company at a premium of \$3 per share if redeemed before January 27, 1984, of \$2 per share if redeemed before January 27, 1989, and of \$1 per share if redeemed on or after January 27, 1989. The Company is required to purchase 5,000 of these shares in each calendar year. At March 31, 1977, 900 shares of the 1977 requirement had been acquired.

The Second Preferred shares are not redeemable before November 1, 1979, but are redeemable on or after that date at the option of the Company at par. These shares are convertible on the basis of 1 Common share for 1¼ Preferred shares converted on or before October 31, 1979. Thereafter, the Second Preferred shares will not be convertible into Common shares of the Company.

The Series A Debentures and the Series A Preferred shares were issued with warrants to purchase Common shares of the Company. The 349,970 warrants outstanding are presently exercisable at \$22.63 per Common share. Depending on conversions of Second Preferred shares and date of exercise, the warrant exercise price may increase to a maximum of \$23.21. After January 3, 1978, the warrants expire.

Of the authorized and unissued Common shares, 1,823,620 shares are reserved for the exercise of warrants outstanding and the conversion of Second Preferred shares.

OWNERSHIP:

Rothmans of Canada Limited presently owns 83.4% of the Company's issued Common shares as well as 15.2% of the issued Series A First Preferred shares. Rothmans of Canada has confirmed its intention to reduce its Common share-holdings to 50% at some future date.

12. Retained earnings:

Under Section 62 of the Canada Corporations Act, \$579,000 of retained earnings at March 31, 1977 is designated as capital surplus on the purchase for cancellation of 5,789 First Preferred shares.

Under the most restrictive provisions of the covenants relating to the Debentures and the Preferred shares, the Company cannot declare dividends on Common shares unless, after providing for them, consolidated retained earnings will be not less than \$6,000,000 and all dividends on the Preferred shares have been declared and either paid or provided for.

13. Remuneration of directors and officers:

The remuneration paid to the thirteen directors and twelve officers (three of whom are also directors), who held their positions with the Company during the year ended March 31, 1977, was \$94,000 and \$749,000 respectively (1976—thirteen directors: \$107,000 and eleven officers: \$800,000). Of the total remuneration, \$50,000 (1976—\$128,000) was paid by Carling O'Keefe Limited.

14. Pensions:

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees and it is the Company's policy to fund pensions with independent trustees. The charge against earnings for pensions was \$7,263,000 for the year ended March 31, 1977 (1976—\$5,426,000), including \$5,841,000 (1976—\$4,184,000) for employees in brewing operations.

Based on actuarial valuations, unfunded prior service costs for brewing operations in excess of the amount reflected in the balance sheet as other long term obligation are estimated at \$16,000,000, of which \$6,000,000 relates to vested benefits. These amounts are being funded over periods ranging from five to thirty years, as described in Note 1. The liability of \$2,354,000 at March 31, 1977 for unfunded vested benefits recorded on the acquisition of the assets of The National Brewing Co. is being amortized over an eighteen year period to 1994. Pension liabilities for tobacco operations are fully funded.

15. Commitments and contingent liabilities:

Under a long term agreement with United Breweries Limited of Copenhagen, Denmark, Carling O'Keefe has access to the brewing research and technical knowledge of United Breweries together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trademarks in Canada, the United States and the Republic of Ireland. Royalties are payable based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancellable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

Capital expenditures for the year ending March 31, 1978 are estimated at \$34,000,000, of which \$27,000,000 relates to brewing operations.

Carling O'Keefe is committed to acquire in 1979 the minority interest (8.1%) in the shares of Jordan Valley Wines Limited for an amount at least equal to \$2,939,000.

To ensure an adequate supply of Ontario flue-cured tobacco, the Company, together with the other major Canadian cigarette manufacturers, has agreed to purchase a specified quantity of the 1977 Ontario crop at a guaranteed minimum average price.

16. Federal anti-inflation legislation:

The Company and its Canadian subsidiaries are subject to, and believe that they have complied with, controls on prices, profits, dividends and compensation instituted by the Government of Canada in the Anti-Inflation Act, effective October 14, 1975. To comply with the controls, Common share dividends paid by the Company during the twelve months ending October 13, 1977 may not exceed \$0.54 per share.

17. Subsequent event:

Carling O'Keefe has granted an option to purchase its property located at Yonge and Front Streets, Toronto. This option is exercisable at various dates up to December 21, 1977 at an amount which is in excess of the \$7,000,000 book value.



Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 02-2246

May 19, 1977

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ROTHMANS OF PALL MALL CANADA LIMITED:

We have examined the consolidated statements of earnings, retained earnings and changes in financial position of Rothmans of Pall Mall Canada Limited for the year ended March 31, 1977 and the consolidated balance sheet as at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the adjustments that might be required on determination of the future of the Natick property referred to in Note 4 to the financial statements, these consolidated financial statements present fairly the results of operations and the changes in financial position of the Company for the year ended March 31, 1977 and its financial position as at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rice Waterhouse & Co.
Chartered Accountants

Ten-Year Financial Review

	<i>Year ended March 31</i>		<i>Year ended June 30</i>	
	<i>1977</i>	<i>1976</i>	<i>1975</i>	<i>1974</i>
<i>Operating Results</i> (in thousands of dollars):		(1)		
Sales				
Tobacco - - - - -	\$394,484	\$385,406	\$344,134	\$300,889
Brewing - - - - -	580,720	512,083	466,456	419,949
	975,204	897,489	810,590	720,838
Excise and sales taxes - - - - -	381,453	371,416	346,245	322,455
	593,751	526,073	464,345	398,383
Earnings				
Earnings (loss) before income taxes—				
Tobacco - - - - -	31,644	37,578	30,648	22,267
Brewing - - - - -	8,306	5,288	1,769	(4,054)
	39,950	42,866	32,417	18,213
Income taxes - - - - -	(17,225)	(20,124)	(15,825)	(10,460)
Minority interest - - - - -	(3,393)	(1,658)	(791)	1,289
Earnings before extraordinary items—	19,332	21,084	15,801	9,042
Extraordinary items - - - - -	336	(73,255)	(71,570)	772
Earnings (loss) - - - - -	19,668	(52,171)	(55,769)	9,814
Depreciation - - - - -	14,395	14,159	13,471	12,891
Interest expense - - - - -	10,433	9,481	9,461	8,446
Dividends paid—				
Preferred - - - - -	3,581	3,604	4,592	7,541
Common - - - - -	2,370	2,279	1,910	802
<i>Financial Position</i> (in thousands of dollars):				
Working capital - - - - -	\$ 75,701	\$ 72,207	\$ 86,764	\$ 61,489
Property, plant and equipment—net - - -	174,055	171,004	157,004	154,337
Other assets - - - - -	38,085	31,759	29,554	104,071
Total assets— - - - -	457,784	424,272	404,355	457,438
Bank indebtedness and notes payable - - -	85,698	77,515	56,162	77,597
Long term debt - - - - -	49,650	55,050	59,639	44,873
Minority interest in subsidiaries - - - - -	100,695	99,317	104,904	106,518
Shareholders' equity - - - - -	109,167	95,795	88,227	150,557
<i>Per Common Share:</i>				
Earnings (loss)—before extraordinary items -	\$ 3.46	\$ 3.84	\$ 2.90	\$ 0.94
—after extraordinary items - -	3.53	(12.24)	(15.36)	1.42
Dividends paid - - - - -	0.52	0.50	0.50	0.50
Shareholders' equity - - - - -	12.24	9.18	7.52	23.23
<i>Ratios and Statistics:</i>				
Working capital ratio - - - - -	1.45	1.48	1.66	1.45
Capital expenditures				
(in thousands of dollars) - - - - -	\$ 23,757	\$ 18,880	\$ 17,478	\$ 18,778
Number of common shares outstanding				
(in thousands) - - - - -	4,558	4,558	4,558	1,604

(1) The fiscal year-end of the Company and its subsidiaries was changed from June 30 to March 31, effective in 1976. Comparative figures for 1976 are for the twelve months ended March 31.

Year ended June 30

<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>
			(2)		
\$271,703	\$248,928	\$223,840	\$211,981	\$205,871	\$173,640
412,603	404,779	396,210	249,726	—	—
684,306	653,707	620,050	461,707	205,871	173,640
311,600	300,431	283,633	223,558	131,125	109,860
372,706	353,276	336,417	238,149	74,746	63,780
21,207	18,141	14,107	10,195	11,930	8,475
8,837	15,757	17,428	11,557	—	—
30,044	33,898	31,535	21,752	11,930	8,475
(12,231)	(16,208)	(16,534)	(11,232)	(6,074)	(4,405)
(4,293)	(5,294)	(5,355)	(3,597)	—	—
13,520	12,396	9,646	6,923	5,856	4,070
1,902	(1,005)	(1,279)	141	—	—
15,422	11,391	8,367	7,064	5,856	4,070
11,751	11,761	9,929	6,564	1,832	1,634
6,433	5,578	6,105	5,342	3,322	1,911
7,608	7,644	7,679	5,613	526	—
—	—	—	1,200	1,600	325
\$ 67,240	\$ 77,142	\$ 92,340	\$ 52,785	\$ 18,739	\$ 15,971
155,938	144,099	119,232	119,112	9,796	9,991
102,030	96,843	106,148	152,169	32,269	12,673
451,926	429,525	410,159	420,835	104,591	79,563
70,433	57,770	33,879	40,869	25,938	28,809
49,707	53,772	58,669	63,080	14,620	15,000
109,469	105,976	106,070	108,632	—	—
149,499	142,368	139,131	139,019	45,353	22,450
\$ 3.68	\$ 2.97	\$ 1.23	\$ 0.67	\$ 3.30	\$ 2.54
4.87	2.34	0.43	0.76	3.30	2.54
—	—	—	0.75	1.00	0.25
22.25	17.25	14.81	14.21	15.81	14.03
1.53	1.69	2.00	1.55	1.43	1.39
\$ 21,171	\$ 22,396	\$ 16,276	\$ 15,990	\$ 1,637	\$ 3,564
1,604	1,600	1,600	1,600	1,600	1,600

(2) Results of Carling O'Keefe Limited have been consolidated since November 1, 1969, the effective date of acquisition of a 50.1% interest in that company; accordingly, the 1970 operating results include brewing for an eight-month period only.

Quarterly Financial Data

(in thousands of dollars)

CONSOLIDATED SALES

	Year ended March 31	
	1977	1976
Quarter ended June 30 – – – – –	\$263,451	\$232,137
Quarter ended September 30 – – – – –	261,192	235,557
Quarter ended December 31 – – – – –	237,177	232,085
Quarter ended March 31 – – – – –	213,384	197,710
	<u>\$975,204</u>	<u>\$897,489</u>

CONSOLIDATED EARNINGS BEFORE EXTRAORDINARY ITEMS

AMOUNT—

Quarter ended June 30 – – – – –	\$ 6,133	\$ 7,460
Quarter ended September 30 – – – – –	5,415	5,856
Quarter ended December 31 – – – – –	5,462	4,994
Quarter ended March 31 – – – – –	2,322	2,774
	<u>\$ 19,332</u>	<u>\$ 21,084</u>

PER COMMON SHARE—

Quarter ended June 30 – – – – –	\$ 1.15	\$ 1.45
Quarter ended September 30 – – – – –	0.99	1.08
Quarter ended December 31 – – – – –	1.00	0.90
Quarter ended March 31 – – – – –	0.32	0.41
	<u>\$ 3.46</u>	<u>\$ 3.84</u>

Officers

JOHN H. DEVLIN
Chairman of the Board

ROBERT H. HAWKES, Q.C.
President and Chief Executive Officer

ROY H. NEWTON
Senior Vice President Operations

ROBERT I. P. CAMERON
Vice President Marketing

DANIEL DI IANNI
Vice President Manufacturing

GORDON R. WHITE
Vice President Sales

C. PAUL YOUNG
Senior Vice President Corporate Services

CAMILLE A. DENIS
Vice President Corporate Affairs

ROBERT T. LLOYD
Vice President Administration

HUGH R. SAMPSON, C.A.
Vice President and Treasurer

MISS CHERRY G. FERGUSON
Secretary and General Counsel

Directors

JOEL W. ALDRED, D.F.C.

GEORGE E. CREBER, Q.C.

JOHN H. DEVLIN

ROBERT H. HAWKES, Q.C.

MURRAY B. KOFFLER

JOHN C. LOCKWOOD

GEORGE B. McKEEN

THE RT. HON. LORD PRITCHARD

JOHN E. SHAFFNER

RONALD D. SOUTHERN

AUDIT COMMITTEE

JOEL W. ALDRED, D.F.C.

ROBERT H. HAWKES, Q.C.

JOHN E. SHAFFNER

COMPENSATION COMMITTEE

JOEL W. ALDRED, D.F.C.

GEORGE E. CREBER, Q.C.

MURRAY B. KOFFLER

PENSION INVESTMENT COMMITTEE

EDWARD A. CRIGHTON

GEORGE B. McKEEN

HUGH R. SAMPSON, C.A.

C. PAUL YOUNG

Head Office • 75 DUFFLAW ROAD, TORONTO, ONTARIO, M6A 2W4

Auditors • PRICE WATERHOUSE & CO.

Bankers • BANK OF MONTREAL

Registrar and Transfer Agent • THE ROYAL TRUST COMPANY

Solicitors • SMITH, LYONS, TORRANCE, STEVENSON & MAYER

PRINCIPAL SUBSIDIARY COMPANIES

Rock City Tobacco Company Limited

Alfred Dunhill of London, Limited

Filtromat of Canada Limited

Carling O'Keefe Limited (50.1% owned):

CANADA

Carling O'Keefe Breweries of Canada Limited

O'Keefe Brewing Company Limited

Jordan Valley Wines Limited (91.9% owned)

Star Oil & Gas Ltd.

UNITED STATES

Carling National Breweries, Inc.

Century Importers Inc.

REPUBLIC OF IRELAND

Beamish & Crawford Limited

VALUATION DAY PRICES

For Canadian capital gains tax purposes, the valuation day values of Rothmans of Pall Mall Canada Limited securities were as follows:

8% Debentures due January 3, 1988	- - - - -	\$93.00
First Preferred Shares, Series A	- - - - -	\$82.50
Second Preferred Shares	- - - - -	\$19.88
Warrants	- - - - -	\$ 3.50
Common Shares	- - - - -	\$16.63



ROTHMANS OF PALL MALL CANADA LIMITED
